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Introduction

South Asia is a region of important but not vital U.S. national interest. Its huge population offers U.S. business tremendous market opportunities, provided economies can sustain growth levels in excess of six percent annually. Helping to build the infrastructure to foster and support such growth across the breadth of societies -- most particularly in India -- offer abundant additional commercial opportunities. While the nuclear capabilities of the two major powers unsettle members of the nonproliferation community, India's and Pakistan's ability to deploy nuclear weapons on short notice does not threaten the U.S. directly, and neither country seems to itself be a proliferator. Meanwhile, India clearly aspires to superpower status.

In this context, a trans-regional framework offers a better structure for U.S. policy than one which views South Asia as essentially separate from the central, southwest, east and southeast Asian regions. India's navy worries countries that depend on Indian Ocean SLOCs, for example, and Pakistan has Islam in common with countries to its west

This paper seeks, very briefly, to outline the strategic context, define the national interests of the two major players and the United States, identify threats, challenges and opportunities, conceptualize trends and scenarios, delineate tools and means of influence, and suggest policy choices. In the interest of remaining close to the recommended paper length, we have glossed over some elements in the analysis framework and left implicit others, notably the policy objectives category. Our paper looks toward 2008, and we wish to note that a number of our conclusions would have been different if the timeline had reached out to 2025.

Context

India, by far the largest and most populous country in the region, boasts a deeply-rooted, sometimes chaotic, democracy built amid a now-fading Fabian socialist economic order. State-owned enterprises (SOEs) are often bloated with unproductive workers and burdened by inefficient investment policies. Inadequate energy supplies, poor distribution, often unreliable telecommunications, bloated bureaucracy and an ineffective tax-collection system further constrain growth. Nonetheless, the economy produced several years of six-plus percent growth during the 1990s. Per-capita GDP stood at \$343 in 1995, and the population was growing at just under two percent per annum*.

The education system is bifurcated, with about 50 percent of adults essentially illiterate as the result of inadequate primary education (particularly for women), while excellent tertiary institutions have produced a pool of two million scientists and engineers, many of whom have moved abroad in search of opportunity. Caste distinctions have not disappeared, and Hindu nationalism is a growing force in this state which preaches a secular political orthodoxy. Meanwhile, only Indonesia has a larger Muslim population. The military establishment is somewhat bureaucratic but effective; it faces a sapping insurgency in the northwestern state of Jammu and Kashmir.

Pakistan, India's rival since Partition, supports that insurgency in furtherance of its claim to Kashmir. Pakistani democracy is less entrenched than India's, and the military traditionally has played a more forceful and overt role in politics. Periodic secessionist

* Most information used in this paper comes from the assigned readings. Much of the economic data, including these GDP and population figures, were taken from recent reports published by the *Economist* Intelligence Unit. In the interest of avoiding a morass of footnotes, this will be the only written reference to that source. No sources other than the readings and the EIU reports were employed in preparing this paper.

unrest has plagued the polity, and political Islam has developed into a concern over the past decade. Although elites reject political Islam, Islamic identity remains central to the Pakistani concept of statehood. This dichotomy could prove difficult to manage in the long term. Central control over certain areas, notably hydrocarbon-rich areas of Baluchistan, is tenuous. Continuing fighting in Afghanistan and low-intensity, often by-proxy conflict with India drain Pakistan more than India. Adult literacy is under 40 percent; the education system overall is backward and poorly funded.

The Pakistani economy is built around agriculture, principally cotton. Value addition is minimal, and a significant structural deficit burdens the economy. The armed forces and debt service absorb as much as two-thirds of the national budget. Remittances from Pakistanis abroad fall in the range of two billion dollars annually and are a critical element in the current account balance. Pakistan is heavily dependent on foreign aid but unable to absorb assistance commitments efficiently. Like India, Pakistan faces dwindling proven hydrocarbon reserves. Per-capita GDP in 1995 was \$467, but the overall economy was much smaller than that of India, whose 970 million inhabitants dwarf the 130 million souls of its neighbor to the Northwest. The population increases by 2.8 percent annually.

For the United States, South Asia has traditionally been an area of marginal inherent interest, though Cold War rivalries sometimes played themselves out in the region, the Afghan conflict being a prime example. The collapse of the Soviet Union brought to the fore other U.S. concerns, particularly transnational interests.

National Interests

India's principal national interest, of course, is state survival. In terms of its foreign

policy, that implies assertion of secular character, in particular vis-à-vis Islamic Pakistan. India's survival as a geopolitical entity does not seem threatened, but its perception of a threat, notably from China, helps to drive an ambitious program to develop nuclear arms, as does concern about Pakistan's intentions. But the principal impetus seems to be a desire to attain the attributes of a superpower. In this regard, special note should be taken of India's growing blue-water navy and its development of ICBM technology. But the need to foster economic expansion that outpaces population growth has crossed the threshold from major to vital national interest, as amelioration of the people's economic circumstances has become increasingly central to maintaining the institutions of the state. The rapid growth of China has heightened that concern. While India could continue to function as a political economy without disputed Kashmir, its national essence would be threatened by loss of the area.

Pakistan's existential threat is more real than India's, with homogeneity in religious confession masking deep tribal differences and schisms between the feudal overlords and other parts of society. If the end of the Cold War brought India new opportunity, albeit not without risks, Pakistan is still searching for a small silver lining amid heavy cloud cover. Alignment with the U.S. and China against the Soviet Union brought financial and technical assistance and weapons, as well as artificial enhancement of its weight in regional affairs. Like India, Pakistan today must confront poor infrastructure. But Pakistan has less to offer would-be partners. It needs to retain as much influence as possible, that means keeping pace with Indian nuclear and ballistic missile technologies. Agricultural diversification is sorely needed. Bringing all of Kashmir into the bosom of the state is crucial to Pakistan's

definition of itself and thus assumes a far greater importance than the area's population or resources would seem to dictate. Ensuring a steady flow of remittances and continued opportunity abroad for surplus labor are major interests.

In the aftermath of the Cold War, U.S. national interests in South Asia center on nuclear nonproliferation issues, in particular stemming the spread of warhead and delivery system technologies and bringing about an effective test-ban regime. Preventing the rise of an eventual hostile power also underlies U.S. strategic considerations. Human rights and counternarcotics efforts remain major transnational interests, but environmental concerns are assuming new weight, as is growing interest in opening the subcontinent's markets to U.S. exports while protecting intellectual property. The U.S. also has an interest in maintaining stability in the region, which translates in this case to managing India's emergence as the sole regional power while preventing conflict with China.

Regional Transnational Issues

Regional transnational issues include: Water rights and linked hydroelectric generation and flood-control dams; the spread of infectious diseases (notably AIDS), the threat of increased drug use among un- and underemployed persons; the rise of Hindu nationalism and political Islam; India's relations with the smaller states on its periphery; barriers to intra-regional trade; erosion and other environmental degradation and the associated depletion of otherwise renewable resources such as groundwater and forests, and, of course, the threat of nuclear proliferation. Concern about terrorism lurks just beneath the surface, particularly with respect to Pakistan's covert support for Kashmiri rebels in India. The negative implications of rapid population growth are also concerns

Threats, Challenges and Opportunities

The foremost threat India faces is that of Pakistan's nuclear-tipped missiles, a threat it substantially created by building a nuclear force in the wake of a lost war with China and Chinese nuclear tests. India must also contend with an insurgency, supported by Pakistan, in the Kashmir Valley. Notwithstanding public protestations to the contrary, India increasingly seems to view Pakistan's occupation of highland portions of Kashmir as threatening a less-than-vital national interest. India wants to see an end to the Kashmir insurgency's drain on its national resources, so that it can address a critical need for sustained higher rates of economic growth and restructure the military. However, a resolution of the Kashmir problem would cost the coalition Indian government political capital at a moment when that intangible but essential resource is needed to loosen the grip of entrenched interests upon many branches of the country's economy. Without significant further liberalization, sustained higher growth rates will not be possible. Hindu nationalism colors politics at all levels of society, and the Hindu nationalist BJP is expected to take a plurality of seats in ongoing elections. Ironically, a BJP majority would be more likely to undertake needed reforms than a BJP-led coalition. Much military equipment and materiel have become obsolete. It will be a challenge to accomplish force modernization and downsizing without taking resources from the economy's productive sectors. Military spending is officially estimated at four percent of GDP.

Pakistan spends a much larger portion of its smaller GDP in a vain attempt to keep pace with India's military technology. Having lost two major wars to India, Pakistan views its nuclear capability as an essential deterrent to India's far more numerous conventional

forces. The loss of Cold War-era U.S. support and evident declining Chinese interest pose grave threats to Pakistan and, by implication, possibly to the region. A Pakistan fearing that it might fall farther behind India could be tempted to exploit a perceived momentary advantage in an eventual crisis. Pakistan's ability to respond effectively to external events is further eroded by societal pressures that keep senior military officers involved in politics. Pakistan must also confront unrest, possibly fomented in part by Iran, in Sindh Province and the critical port and industrial city of Karachi.

Events in South Asia likely could not directly threaten vital U.S. national interests. But the region's proximity to Persian Gulf oilfields and the potential for Iranian (on one side or sides) or other meddling in an eventual further breakdown of Pakistan's social fabric bears watching. Neither a radicalized Pakistan nor a fragmented failed state would serve U.S. interests in a region already fraught with civil war (Afghanistan, Tajikistan). Moreover, leaders of a collapsing Pakistan might attack India in order to rally domestic solidarity. A nuclear exchange could ensue. While tangible U.S. national interests might not suffer from an eventual Indo-Pakistani nuclear exchange, any use of nuclear weapons would dispel an aura that the U.S. has worked hard to maintain ever since the first and only combat use of nuclear armaments in 1945. India's civilian control of nuclear weapons components and Pakistani military control seem to have been effective and stable, but neither side's C3I capabilities are sufficient to render infinitesimal the probability of an accidental exchange. If one or both of the states emerged from a nuclear exchange essentially intact (and India probably would) a dangerous and internationally destabilizing lowering of the nuclear threshold would be likely.

For the United States the principal challenge will be to maintain and enhance its influence in the south Asian region through dialogue, diplomacy, mediation, commerce and some military-to-military exchange while not substantively increasing its commitment to the region. It will also be critical to preclude an eventual dangerous Indo-Chinese rivalry over influence in Southeast Asia and the SLOCs from the Bay of Bengal to the Strait of Malacca. Probable Indian development of an ICBM will have little effect on the region but could be destabilizing in a trans-regional context. The continuing ambiguity of Indian intentions poses an inherent challenge for U.S. statecraft.

Trends and Scenarios

Looking toward 2008 from the U.S. perspective,^{*} the ideal south Asian world would feature a resolution of the Kashmir impasse, probably featuring territorial concessions by both India and Pakistan but resulting in a net outcome not significantly different from what pertains today. The ideal South Asia would also have put the nuclear genie back into the bottle without a simultaneous global nuclear disarmament. In this scenario, a highly confident India concludes that it does not need nuclear weapons, and a relieved Pakistan, bolstered by Chinese, Russian and U.S. security guarantees, also disarms. Trade among the countries of the region expands rapidly, with India perceived (in contrast to today) as an essentially benign power with no need to project its security beyond its own national boundaries. After consuming a few beers, we might give this scenario a five percent chance of realization within ten years.

^{*} We also examined trend-lines and scenarios from the perspectives, respectively, of Pakistan and India. Space constraints precluded their inclusion in this paper.

A worst-case scenario (a ten-percent probability) features a nuclear exchange. Both countries' economies collapse as a result of the horrendous death and physical damage and relentless capital flight. Its major population centers all destroyed, Pakistan returns to its feudal past, collapsing into warlord fiefdoms. Massive refugee flows horrify the world and overwhelm the capacity of relief agencies. Human rights violations occur on a nauseating scale. Strong condemnation of India's massive retaliation against Pakistan's ill-conceived pre-emptive strike against Indian command-and-control facilities prompts India's government to turn inward while spouting xenophobic rhetoric. The possibility that India might develop into a rogue state becomes the topic of op-ed pieces.

Fortunately, we see an 85 percent probability of an *enhanced status quo*. This fairly felicitous world does not feature a south Asian NFZ, but it does incorporate improved security and safety standards resulting from U.S. assistance both sides in improvement of command-and-control and early warning technologies. Fitful negotiations over the final status of Kashmir continue, with neither side really wanting closure for fear of domestic political repercussions. Increasingly effective Indian counterinsurgency initiatives have taken the wind out of the Kashmiri rebels' sails. The LOC looks more like a final boundary with each passing year. Occasional skirmishes continue on the Siachen Glacier, but the costs and casualties are considered bearable by policymakers in both Islamabad and New Delhi. India and Pakistan both have growing economies, though neither country can boast performance equal to that of the now-resurgent "Tiger" economies of East and Southeast Asia. Needed structural reforms are still underway, and continuing nuclear programs in both countries and the demands of the Kashmir conflict keep military expenditures high.

Means of Influence and Tools

Pakistan has the weakest hand in the game. Its major international asset is its stability and degree of Westernization relative to its Muslim neighbors. It has an effective military; its ground forces are particularly capable. It could either intensify or cut its support for Kashmiri insurgents. Its trump card is its nuclear program, and that card can only be played once. In other words, Pakistan could garner certain advantages from terminating, or more likely capping, the program, but these would be one-time returns.

India brings to the table two generations of influence in the NAM that have helped it to keep at bay repeated Pakistani efforts to mobilize Islamic countries to side against India on the Kashmir issue. Its regional leverage, born of geography and demography, is unparalleled. Its huge and growing market is an attractive target for companies from around the world, and the state's continuing large shareholdings in major companies allows it to trade access for political advantage on the international scene. Its huge pool of talented scientists and technicians offer relatively cheap skilled labor for Western high-technology companies whose growth in home markets has peaked

The U.S. offers its prestige as the sole global superpower. While a state can survive without cordial relations with Washington, its task is harder, and its economy cannot attain its full growth potential. Although an international debtor, the U.S. wields great power in the IFIs, dominates capital markets worldwide and offers a critical funnel through which both portfolio and direct investment can flow. Alternatively, the threat of U.S. sanctions can remove impetus from an economy. Moreover, U.S. military technology is unsurpassed, and military-to-military exchanges and FMS offer prospects of access

U.S.-based NGOs can assist both countries in public health and communal development. The U.S. holds the key to India's longing for a permanent seat on the UNSC.

Policy Choices*

The U.S. needs to re-engage Pakistan more effectively while recognizing that India is the only genuine regional power. Specifically, actions must be taken to alleviate the damage inflicted by the Pressler Amendment while closer relations with India are pursued across a broad spectrum of concerns. The emerging primary interests are economic and commercial, with vast opportunities (mostly in India but also in Pakistan and other states) in hydrocarbon extraction, transport, refining and delivery and in power generation and transport and communications infrastructure. Growing consumer classes offer markets for a range of U.S.-produced goods and services. Engagement with India is critical to U.S. transnational interests, particularly with respect to environmental and public health issues. The declining interest is likely to be nuclear nonproliferation. Over time, recognition will grow that the Indian nuclear genie is not going back into the bottle except perhaps as part

* In view of space constraints, only recommendations for U.S. policy are contained in the text. With an eye to the Course Four objective of being able to see reality through another state's glasses, we offer the following very brief glosses on what India and Pakistan might view as useful policy choices.

India should pursue gradual economic reform in order to avoid alienating critical elites and inciting popular unrest. A BJP majority government might have a mandate to move faster. The financial system will need to be freed rapidly in order to marshal funds for infrastructure development. Commercial development of infrastructure will need to expand. Barring a radical shift in international attitudes, India should maintain its current position with respect to nuclear weapons while upgrading and hardening C3 facilities. Further progress in relaxing relations with neighbors other than Pakistan needs to be made. Resolving the Kashmir dispute along the current LOC should become a more public goal, with international mediation accepted if it might further the national interest in obtaining a permanent UNSC seat. A long-range force modernization is required; weapons acquisition plans should include technology transfers. China must be reassured that force modernization and expanding relations with Southeast Asia do not present a threat to Chinese interests.

Pakistan must seek not to fall behind India in nuclear technology. Ideally, it would like mutual caps. Modernization of the agricultural sector and expansion of trade within the region are critical to permitting the economy to absorb investment efficiently. More effort must go into building relations with other Islamic states. Civilian control of the military needs to be advanced, and family-planning efforts must intensify.

of a highly unlikely global disarmament plan. Thought needs to be given to accepting India (and perhaps even Pakistan) as a nuclear-weapons state -- with all the reciprocal obligations that entails. Bringing India into the permanent members circle of the UNSC would cater to Indian pride and encourage the country to moderation and restraint. India would understand and not be threatened by the offsetting security assurances the U.S. and China would offer to Pakistan in exchange for it gracefully accepting a secondary role in the region. While this approach amounts to a global tilt toward India, an international role for Pakistan -- perhaps concentrating on the Islamic world -- could be found.

In exchange for U.S. facilitation of its nuclear and global power ambitions, the U.S. could expect India to accord American industry some preference in the award of contracts for public infrastructure, notably in the provision of LWRs and other peaceful uses of nuclear power. The U.S. has a wide lead in many agro-industrial and environmental technologies, for which the burgeoning populations of South Asia would be natural markets. U.S. NGOs could work in rural community development to expand incomes and create additional commercial opportunities.

Kashmir remains a thorny issue, and the best U.S. position is in the background. When and if the parties are ready to deal, the U.S. might play a facilitating role, privately encouraging both sides to accept something along the lines of the current LOC, though perhaps with some minor adjustments favoring Pakistan as an offset for agreeing to Indian preeminence overall. Risks and benefits would have to be assessed at the appropriate time. A growing Indian-American community offers both opportunity and the risk of one-sided grassroots political action.